

Grocery titans brace for war to lure local shoppers

CONTINUED FROM 1K

bertsons, the nation's second-biggest grocer, for the past five years.

Despite its bigger size, Albertsons has had a tough time storming H-E-B in the San Antonio market, which the locally based grocer rules with a massive 62 percent market share.

Boise, Idaho-based Albertsons has doubled the number of San Antonio-area stores in that time and each company has upped the ante by adding new services such as banks or self-scanning checkouts.

H-E-B was primed for today's battle by going several rounds with Kroger Co. of Cincinnati, which came into San Antonio in the late 1980s, but by 1993 had retreated, selling 15 of its grocery sites to Megafoods Stores Inc. of Phoenix, which also became parent of San Antonio-based Handy Andy.

But Megafoods spiraled into bankruptcy and spun off Handy Andy, which has had troubles of its own and is under fresh ownership for the fourth time since 1994.

Rohde said the current maneuvering means further bloodshed.

"The net result at some point will probably be a very fierce price war similar to what happened when Megafoods and Kroger came to town," Rohde said, "where H-E-B dropped its prices below cost and eliminated all the independents."

But Rohde said H-E-B may be scrambling to deal with the supercenter assault.

"I don't think they knew about it five years ago when they were making their long-range plans," he said. "And all of a sudden, wham! A SuperTarget comes in and that's a brand new concept."

H-E-B spokesman Greg Flores said H-E-B is prepared.

"We've been competing with those types of operations for quite a while now, particularly in the one-store towns in Texas here," Flores said. "We know what they're all about, so it's just another part of doing business."

He would not discuss strategy, but suggested a possible price war, or a further piling on of the well-received, one-stop shopping concept.

"What's going to happen is that consumers will see a benefit from the increased competition," Flores said. "We're looking always at ways of adding services."

Another tactic H-E-B appears to have taken is to outflank its bigger rivals, said real estate broker Larry Baumgardner of Dominion Advisory Group.

While the supercenters maneuver along Loop 1604, H-E-B has been colonizing in towns like Boerne and Bulverde.

"Once you live out past 1604, you don't like to come back into town, as it were," Baumgardner said. "I think H-E-B has a strategy of going out to those markets. They are more fleet of foot than Wal-Mart or Target, Costco or Sam's. They're not going to take this lying down."

He added that H-E-B, and Albertson's to some extent, have another talent: "H-E-B is nothing short of spectacular at identifying the submarkets and providing the goods that those submarkets demand."

"It's hard to imagine that Wal-Mart would be able to be that nimble on a submarket basis," he said.



Trainer Diana Hernandez goes over the steps in making a cafe latte with Melissa Valdez at the Starbucks inside the Super Target at Loop 1604 and Bandera Road. The Super Target joins a list of heavyweights vying for the local market.



Tony Roy weighs cheese at the Super Target Archer Farms Market. The grocery store is part of the Super Target at Loop 1604 and Bandera Road. Most of the retail battles will be fought in the grocery section.

But the evidence is the big guys are trying, as shown by SuperTarget's last-minute refining of its meat selections. And they've recognized that shoppers want some kind of diversion while they shop, as opposed to tending business in a sterile, warehouse atmosphere.

Finding their niche

In the days before the new SuperTarget opened, employees lined up at the in-house Starbucks

counter for their afternoon latte, a training perk that put coffee-welding apprentices through their paces.

A sweet, warm smell flowed from the adjacent bakery, where baker Al Aponte had just pulled a half-dozen trays of fresh angel food cakes from the oven. Nearby, empty racks waited for crème brulee, mango mousse and truffle cake.

The terms "upscale" and "discount" aren't considered mutually exclusive by Target officials, who aim for higher-income customers than Wal-Mart or Kmart typically pull in.

"We're not trying to out-Wal-Mart Wal-Mart," said Target regional vice president Marty Brinkman. She said a soccer mom in a two-income family with children personifies her company's core market.

Shelby Report's Gilmer remarked, "Now, even supercenters are niche players."

Technology is playing an ever-larger role in the fray. The scanning system has allowed the industry to track by the minute what it sells. Now companies like Albertsons and H-E-B are trying self-scanning and online orders.

Taking one-stop shopping even further, San Antonio's second SuperTarget, under construction at Blanco Road and Loop 1604, may feature an E*Trade Zone, in which the California-based Internet company would set up an ATM, a staff person and a computer workstation with links to E*Trade's banking and brokerage sites. E*Trade recently announced it will set up shop in 20 SuperTargets around the country.

The next stage of battle could move back into the city, as the Wal-Mart war machine deploys its precision store, the Neighborhood Market.

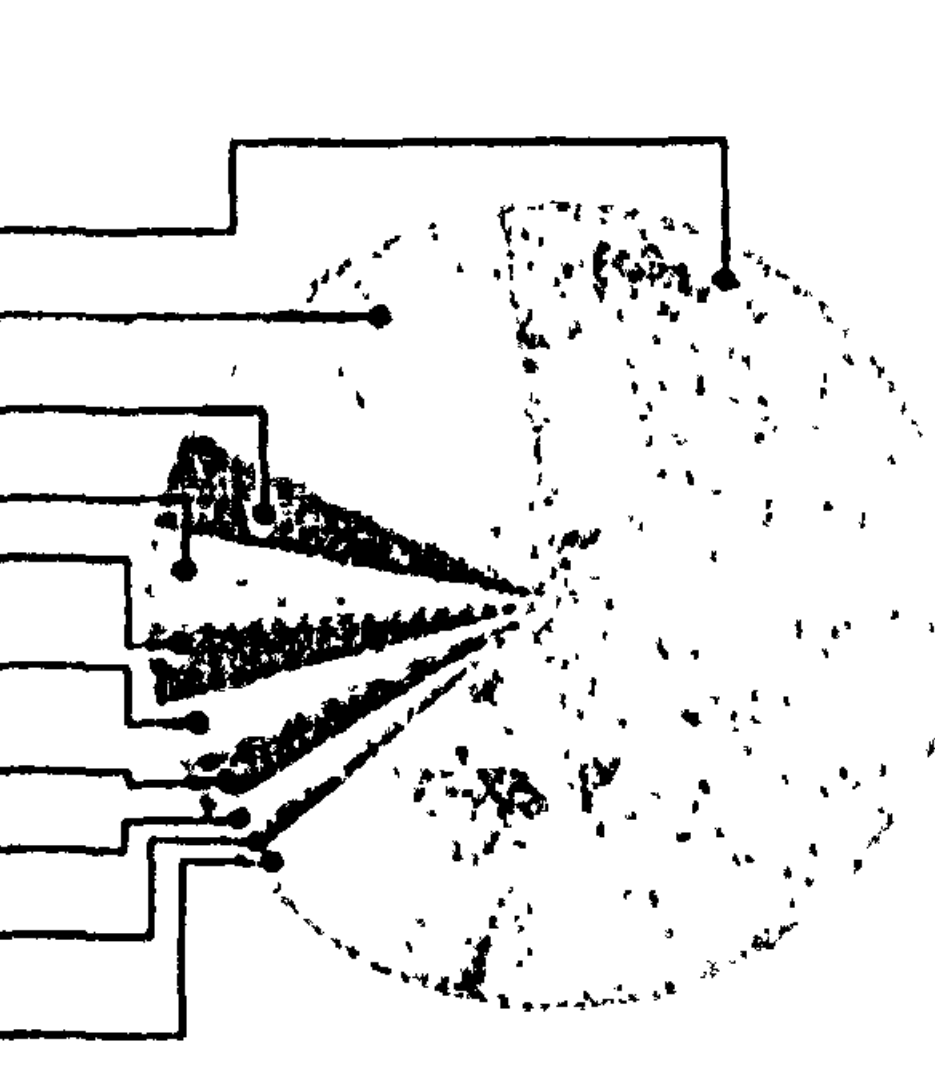
A petite 40,000-square-foot format that broker Baumgardner described as "an expanded Wal-

Market share

Retailers' share of the San Antonio area grocery market as of February 2001

	# of stores	% of market
H.E. Butt	43	61.89
Albertson's	24	16.71
Handy Andy	18	4.50
Military	5	4.09
Wal-Mart	3	3.57
Kmart	3	2.54
Whole Foods	1	2.42
La Fiesta	6	1.50
Sun Harvest	4	1.15
All others	9	1.63

Source: The Shelby Report



greens," the Neighborhood Market is designed for smaller towns and inner-city neighborhoods with limited land, and it's rolling out now in Dallas and Houston.

Gilmer described the Neighborhood Market's expansion as Wal-Mart's move to "clean the plate off" and devour the rest of the grocery business.

"They're fighting with the same weapons, so to speak," he said, and "hitting Texas hard."

The Neighborhood Markets are positioned primarily in Dallas, with some in Arkansas and Oklahoma City, and two weeks ago Wal-Mart announced it would open five in Houston -- an announcement real estate brokers read as an eventual 50.

And they say it is only a matter of time before San Antonio becomes the next front.

"Those are the stores, in my opinion, that are going to create the most damage for the H-E-Bs and Albertsons," Baumgardner said. "They (Wal-Mart) are using those stores to penetrate the inner-city markets, and to me those are the scariest features of their strategy."

Grocers in peril?

Smaller grocery stores that have weathered the perilous market transformations of the past 20 years also stand to lose from the conflict's potential doubling back.

"The battle cry for the independents of the last few years has been 'find your niche,' whether it be hometown grocer or organic boutique," Gilmer said. But even those hardy survivors are threatened.

Handy Andy's fortunes appear to have stabilized after it was seized late last year by its main creditor, Grocers Supply Co. out of Houston, and quickly flipped to Bexar County Markets Inc.

Bexar County Markets President Terry Warren, who also manages a small group called

City Markets in Austin, said his company has the natural advantage of being local.

"I'm in the stores daily," he said from his cell phone as he plowed down Interstate 35. "It's not like somebody sent a moving man to my house and sent me here from Boise."

But market dynamics could imperil even the healthiest small grocers.

"I really don't see how the non-regional grocery stores can survive," Baumgardner said. The local argument doesn't hold water for him "unless it is framed in the context that really these stores will become specialty grocery stores," like Whole Foods or Sun Harvest.

As an example, Baumgardner recalled the once-ubiquitous bicycle shop.

Now there are few, and the ones that survive "compete because they don't sell the product that Wal-Mart does. They sell a very, very high-end product."

In much the same vein, Sun Harvest's health-oriented smaller format should survive the big discounters' outlying battles, said Nelson Wolff, who sold the chain to Colorado-based Wild Oats Markets Inc. in 1999, but still works for the company.

But the impending Neighborhood Market assault left Wolff uncertain.

"That's a different level of competition there," he said. "I haven't really followed that yet."

"Obviously, they're around to stay," Wolff added. "It's getting harder and harder for independents to survive."

The melee will spread to independent general merchandise stores, Rohde said.

"Wal-Mart Superstores do \$2 million a week. Six mean \$600 million a year that's coming out of someone else's pocket," he said. "It's not all groceries."

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